OPERATIONS DEPARTMENT PRESENTATION

TO

PHILIP MORRIS BOARD OF DIRECTORS

OCTOBER 28, 1964

RESEARCH AND DEVELOPMENT

The Research and Development Department serves the technological needs of Philip Morris Incorporated with the primary effort at the Research Center aimed at our tobacco product line. This effort is focused on several objectives which I reviewed with the Board of Directors last March. Rather than to go over this material again I propose this morning to address you briefly on the considerations we are giving to the principal problem of the Industry, - the question of Smoking and Health.

Please recall that our number one objective is to develop products having maximum consumer appeal in the current and future health conscious market place. Two years ago, in anticipation of a health crisis to be precipitated by the Smoking and Health Report of the Surgeon General's Committee, we undertook to develop a physiologically superior product. For this we pioneered with the aid of two competent outside biological laboratories in the establishment of two new test methods involving the effects of cigarette smoke on (1) in vivo mucus flow and (2) respiratory dynamics. Our strategy here was that if we could define new acceptable

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criteria by which physiological performance of a cigarette would be judged, and then develop a product or products meeting these criteria, we stood an excellent chance of having our product be best in the market and receive valuable outside endorsement.

With these tests as criteria we did put together a charcoal filter product with performance superior to anything in the market place. That product was known as Saratoga. Physiologically it was an outstanding cigarette. Unfortunately then after much discussion we decided not to tell the physiological story which might have appealed to a health conscious segment of the market. The product as test marketed didn't have good "taste" and consequently was unacceptable to the public ignorant of its physiological superiority.

Strenuous efforts by Manufacturing, Leaf, and R & D to improve the taste of Saratoga were underway when the Smoking and Health Report was issued. These efforts resulted in Philip Morris Multifilter which has both good taste and good physiological performance and which was introduced into the market place last spring.

For this product we did embark on a publication and endorsement program but it was, I fear, a case of "too little and too late." The imposition of FTC rules and the Industry Advertising Code took the starch out of the program although we did make an oral presentation of the mucus flow

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results at a scientific meeting in Chicago.

Even though the Smoking and Health Report contained for us few surprises we gave it thorough study. From this we came to several important conclusions which we expressed in a memorandum to our top management last February.

1. First we sensed that in the public eye the burden of proof had been shifted from the accusers of cigarettes as a health hazard to the cigarette producers. It was now up to the cigarette companies to prove that cigarettes are safe or that safe ones could be made. In this connection it is our opinion that the industry must somehow find a way to make an effective technical rebuttal to the arguments of the anti-cigarette forces. Only in this way will the present burden be lifted from us.
2. Secondly the government and private agencies would intensify their technical activities on the smoking and health question to protect their monetary and political interests. The Industry to avoid excessive regulation and to maintain its competitive independence would have to do likewise.
3. Third, these research efforts would in all likelihood lead sooner or later to cigarettes generally regarded as "less harmful" than others. Philip Morris to maintain its competitive position would have to have on its shelf for introduction products substantially

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better physiologically than P. M. Multifilter or anything else currently on the market. We would in effect have to leapfrog forward in product design. The burden of such a development clearly would fall on the Research and Development Department.

A quick review of new activities outside the tobacco industry relating to smoking and health will show the importance attached by others to this question and will serve to emphasize the nature of competitive developments. You are aware, of course, that the AMA is sponsoring additional research and that the tobacco industry will contribute $10 $\overline{M}$ over the next five years to this effort. In government, the Department of Health, Education and Welfare has adopted the Surgeon General's Report as policy and its National Institutes of Health have already placed three research contracts totalling $300,000. In addition, Congress has appropriated for the current fiscal year $2 1/2 $\overline{M}$ to the Agricultural Research Service (USDA) for health oriented tobacco research in cooperation with NIH the bulk of which is to be spent at the University of Kentucky. The pattern is the same abroad. In England a research laboratory sponsored by the industry has been established at Harrogate to do biomedical research. On the Continent individual companies and monopolies have agreed to pool research on the health question, thereby reducing it as a basis for competition. Technical researchers meet to share information and plan future work. All these efforts underscore the broad and serious attempt to eliminate what are generally believed to be harmful aspects of cigarette smoke. It behooves Philip Morris to participate in suitable ways in this endeavor in order to learn the most from whatever knowledge

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is discovered and to be prepared to take commercial advantage of any developments from these programs.

In response to this situation your Research Department has made a thorough appraisal of its program and has moved in several directions to meet the challenge. First we have set up a Technical Planning and Information Division within which we will have a group proficient in the biological field. Their function will be twofold: one, to study in detail all aspects of the smoking and health situation and, two, to recommend how our chemical, biological, and processing studies may be better aimed at our objectives. Personnel from the Division have already visited experts on both sides of the controversy, studied new bioassay indices, kept an up-to-date survey of the pertinent scientific literature on the subject. It is our intention to develop and maintain closer liaison with centers of knowledge in the biomedical area.

Secondly, we are continuing our physiological research activities in outside laboratories. The need for better criteria of the effects of smoking, both chronic and acute, is paramount since any efforts to develop a product acceptable from a physiological standpoint depends upon adequate and sensitive tests with biological systems.

Thirdly, we are engaged in a research and development program to deliver a cigarette line with superior physiological performance, unique and effective filter systems attractive to marketing interests, and with

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taste and flavor comparable to major filter brands. This program has been underway since May and it is expected that by early in 1965 definite product specifications and prototypes will be available for Management consideration.

In all this activity our aim is to "Be Prepared." We cannot know how the advertising code will be interpreted or administered, or how the products we are developing can be merchandized in the market place. We do know that all the major cigarette companies have now allied themselves with biological research laboratories and are actively working in these areas.

We also know that both Roswell Park Memorial Institute in Buffalo and the Council for Tobacco Research Laboratories at Harrogate, England, are making commercial and experimental brand comparisons by means of mouse skin painting tests. It is clear that we cannot afford to slacken our efforts in the hopes that the problem will go away. Our antagonists will see to it that this does not happen.

In short, the Research and Development Department is working to establish a strong technological base with both defensive and offensive capabilities in the smoking and health situation. Our philosophy is not to start a war, but if war comes, we aim to fight well and to win.

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